



## Senate Bill 122

### *Property Tax Exemption - Religious Group or Organization - Third-Party Leases*

MACo Position: **SUPPORT**

To: Budget and Taxation Committee

Date: January 19, 2023

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** SB 122. This bill would promote taxpayer equity by conditioning tax-exempt treatment of specified real property based on its actual use rather than its nominal ownership.

Horizontal equity – the principle that people and businesses under similar circumstances should bear equal tax burdens – is a hallmark of a fair tax system. However, because of state-mandated property tax exemptions and special evaluations, Maryland’s property tax structure often fails to provide taxpayer equity across all properties.

SB 122 specifies that real property owned by a religious group or organization leased to a third party does not qualify for a specified property tax exemption. If only part of the real property is leased to a third party, only the leased part of the real property does not qualify for the exemption.

This concept is not new to Maryland. Indeed, most personal property tax exemptions are based on equipment and machinery’s use rather than ownership. The federal income tax law also incorporates similar principles with income – where “unrelated business income” is taxable even on generally tax-exempt entities such as charities or similar classifications.

Mandated tax exemptions require counties to forego meaningful local revenues to support essential public services, even if the exemptions do not serve their best interests. In Baltimore City alone, the property value owned by universities, hospitals, nonprofits, and other tax-exempt organizations totals well over 30 percent of Baltimore’s assessed value.

Although these entities are exempt from paying property taxes, they still reap the benefits of police and fire protection, snow and trash removal, road maintenance, and other essential services. Simply put, these exemptions mean that other homeowners and businesses must bear a greater share of the property tax burden for universal services.

SB 122 would level the playing field for all taxpayers by ensuring properties owned by a tax-exempt entity but used by another entity for broader, traditionally taxable functions are subject to taxation. Accordingly, MACo urges the Committee to issue a **FAVORABLE** report on SB 122.